

GALESBURG-AUGUSTA COMMUNITY SCHOOLS

FINANCIAL STATEMENTS

JUNE 30, 2004

L. SKIPPER BEERS, CPA

BATTLE CREEK, MICHIGAN

Independent Auditor's Report

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Galesburg-Augusta Community Schools, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the the District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Galesburg-Augusta Community Schools, as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have issued my report dated December 31, 2004 on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

The accompanying *Management's Discussion and Analysis and Budgetary comparison information* are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise District's basic financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statement.


December 31, 2004

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

Board of Education
Galesburg-Augusta Community Schools
Galesburg, Michigan

I have audited the basic financial statements of Galesburg-Augusta Community Schools as of and for the year ended June 30, 2004, and have issued my report thereon dated December 31, 2004. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Galesburg-Augusta Community Schools' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Galesburg-Augusta Community Schools' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be a reportable condition. *Reportable conditions* involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Galesburg-Augusta Community Schools' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The District had an absence of appropriate segregation of duties over cash disbursements. The same person(s) made entries in the accounting records, mailed cash disbursements, and reconciled bank accounts.

A *material weakness* is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe the reportable conditions described above is **not** a material weakness.

This report is intended for the information of the finance committee, management, and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink, appearing to read "Z Skypje Baer". The signature is written in a cursive, flowing style.

December 31, 2004

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

8. LONG TERM DEBT:

Bonds payable at June 30, 2004 are comprised of the following individual issues -

1996 School Improvement Bonds (Durant)	\$157,052
Issue dated November 1996 to be paid by the State of Michigan over a 15 year period. Annual interest rate is 4-716%.	
Issue dated November 28, 2000 in the amount of -	21,385,000
Less: bonds paid in prior years	640,000
bonds due and paid May 1, 2004	340,000
Balance outstanding - June 30, 2004	<u>20,405,000</u>
 TOTAL BONDED DEBT	 <u>20,562,052</u>
 Michigan School Bond Loan Fund	 593,189
Bus loans(collateralized by buses purchased)	<u>150,416</u>
TOTAL NON-BONDED DEBT	<u>743,605</u>
 TOTAL GENERAL LONG TERM DEBT	 <u><u>\$21,305,657</u></u>

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

8. LONG TERM DEBT (CONTINUED):

2000 School Building and Site Bonds

Bonds were authorized in the amount of \$21,670,000 at an election on September 26, 2000 for the purpose of erecting, furnishing, and equipping a new high school, and making certain improvements to other buildings and grounds.

Scheduled payments of principal and interest are as follows:

Year	Principal	Interest
2005	370,000	1,096,503
2006	600,000	1,077,138
2007	635,000	1,045,638
2008	675,000	1,012,300
2009	725,000	976,863
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2027	850,000	185,938
2028	850,000	140,250
2029	850,000	93,500
2030	850,000	46,750
	<u>\$20,405,000</u>	<u>\$15,691,628</u>

Five year payments of long term debt are as follows:

	Principal		Interest		Total
	Bonded	Other	Bonded	Other	
2005	370,000	72,176	1,096,503	7,577	1,546,256
2006	611,899	39,120	1,082,501	3,779	1,737,299
2007	647,463	39,120	1,050,435	1,890	1,738,908
2008	688,059	-	1,016,504	-	1,704,563
2009	783,079	-	1,000,248	-	1,783,327
Thereafter	17,461,552	-	10,490,685	-	27,952,237
Total	<u>\$20,562,052</u>	<u>\$150,416</u>	<u>\$15,736,876</u>	<u>\$13,246</u>	<u>\$36,462,590</u>

Bonds issued:

On July 1, 1998, the school issued bus purchase bonds in the amount of \$96,224. The proceeds were disbursed for the full amount on July 17, 1998. The amount of the debt is grouped with bus loans earlier in this note. The final payment for those bonds will be made in fiscal year ending June 30, 2005.

In November 1996, the State of Michigan issued bonds to cover the Durant lawsuit settlement. The obligation is carried on the District's financial statements, however, the State is expected to appropriate the money to pay for the bonds, and they are not a legal obligation of the District.

	Balance	Additions	Subtractions	Balance
	June 30, 2003			June 30, 2004
Bonds payable	\$20,902,052	-	\$340,000	\$20,562,052
Notes payable	599,641	236,492	92,528	743,605
	<u>\$21,501,693</u>	<u>\$236,492</u>	<u>\$432,528</u>	<u>\$21,305,657</u>

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GALESBURG-AUGUSTA COMMUNITY SCHOOLS

DISTRICT - WIDE STATEMENT OF NET ASSETS

JUNE 30, 2004

ASSETS

Current assets

Cash and cash equivalents	\$3,470,020
Investments	63,247
Receivables -	
Taxes	191,377
Accounts	1,294,147
Inventories	5,226
Prepaid expenses	12,022
Total current assets	<u>5,036,040</u>

**Governmental
Activities**

Noncurrent assets

Capital assets:	
Land	437,000
Land Improvements	1,563,507
Buildings	27,347,250
Machinery and Equipment	3,669,736
Vehicles and buses	873,709
Less accumulated depreciation	<u>(6,974,983)</u>
Total nuncurrent assets	<u>26,916,219</u>
Total assets	<u><u>\$31,952,259</u></u>

Liabilities

Current liabilities

Accounts payable	\$969,944
Accrued expenses	821,628
Deferred revenues	133,501
Bonds and loans payable, due within one year	376,151
Total current liabilities	<u>2,301,224</u>

Noncurrent liabilities

Bonds and loans payable	20,035,000
Other	743,631
Total nuncurrent liabilities	<u>20,778,631</u>
Total liabilities	<u>23,079,854</u>

NET ASSETS

Invested in capital assets, net of debt	6,137,589
Restricted for:	
Debt service	-
Capital projects	1,708,976
Other	
Unrestricted (deficit)	<u>1,025,840</u>
	<u><u>\$8,872,405</u></u>

DISTRICT - WIDE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Function/Programs	Program Revenues			Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Change in Net Assets
Governmental activities:				
Instructional services	\$6,112,170	\$60,192	\$1,341,594	(\$4,710,384)
Support Services	3,575,539	-	-	(3,575,539)
Food services	411,252	205,359	205,289	(603)
Athletics	47,546	40,219	-	(7,326)
Interest on long term debt	1,126,020	-	-	(1,126,020)
Unallocated depreciation	599,360	-	-	(599,360)
Total governmental activities	<u>\$11,871,886</u>	<u>\$305,770</u>	<u>\$1,546,884</u>	<u>(\$10,019,232)</u>

General Revenues:

Taxes-	
Property taxes, general purpose	\$1,698,519
Property taxes, debt service	1,511,003
State aid, not restricted to specific purpose	6,217,392
Interest and investment earnings	413,541
Special education	
Other	116,815
Total general revenues	<u>9,957,269</u>
Change in net assets	(61,963)
Net assets - beginning	<u>8,934,368</u>
Net assets - ending	<u>\$8,872,405</u>

GALESBURG-AUGUSTA COMMUNITY SCHOOLS

COMBINED BALANCE SHEETS - ALL FUND TYPES AND ACCOUNT GROUPS

June 30, 2004

ASSETS	General Fund	Capital Projects Fund	Other Nonmajor funds	Total Governmental Funds
Current assets				
Cash and cash equivalents	\$1,233,032	\$1,645,729	\$591,259	\$3,470,020
Investments	-	-	63,247	63,247
Property taxes receivable	75,962	-	68,656	144,618
Due from other funds	14,253	4,669	38,895	57,818
Accounts receivable	1,294,147	-	-	1,294,147
Inventories		-	721	721
Total assets	\$2,617,395	\$1,650,398	\$762,779	\$5,030,572
Liabilities				
Accounts payable	\$136,860	\$833,084	-	\$969,944
Due to other funds	43,565	-	14,252	57,817
Salaries and payroll taxes payable	640,775	-	-	640,775
Note payable			-	-
Deferred revenues	133,501	-	721	134,222
Total liabilities	954,701	833,084	14,973	1,802,758
Fund balances:				
Reserved for -				
Retirement of long-term debt			531,439	531,439
Capital projects		817,315	63,247	880,562
Unreserved-				-
Designated for	-		-	-
Undesignated	1,662,694		153,120	1,815,814
Total fund balances	1,662,694	817,315	747,806	3,227,815
Total liabilities and fund balances	\$2,617,395	\$1,650,398	\$762,779	\$5,030,573

See accompanying notes

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
DISTRICT-WIDE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

Total fund balances - governmental funds \$3,227,815

Amounts reported for governmental activities in the Statement of Activities
are different because:

Capital Assets used in governmental activities are not financial resources
and therefore are not reported as assets in governmental funds

The cost of the capital assets is	\$33,891,202	
Accumulated depreciation is	<u>(6,974,983)</u>	
		26,916,219

Property taxes receivable not available soon enough to pay for the current period's expenditures , and therefore are deferred in the funds	46,759
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Prepaid insurance is an expended resource and is not recorded in the funds.	12,022
Ending prepaid insurance	
Less beginning prepaid insurance	

Most Inventories are expensed as purchased in the funds.	4,505
Ending Inventory	
Less beginning inventory	

Beginning deferred revenue in kitchen fund	720
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Long-term liabilities, including bonds payable, are not due and payable in
the current period and therefore are not reported as liabilities in the funds.

Long-term liabilities at year end consist of -

Bonds and loans payable	(21,154,782)
Accrued interest on bonds	(180,853)

Total net assets governmental activities	<u><u>\$8,872,405</u></u>
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GALESBURG-AUGUSTA COMMUNITY SCHOOLS
**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES**
 Year ended June 30, 2004

	General Fund	2000 Capital Projects	Other Nonmajor Funds	Total Governmental Funds
REVENUE:				
Local sources	\$2,366,469	\$405,840	\$1,739,850	\$4,512,159
State sources	6,897,244	-	12,638	6,909,882
Federal sources	148,135	-	191,930	340,066
Total revenue	<u>9,411,848</u>	<u>405,840</u>	<u>1,944,419</u>	<u>11,762,107</u>
EXPENDITURES:				
Current -				
Instruction	5,941,735			5,941,735
Supporting services	3,243,340		448,016	3,691,356
Debt service -				-
Bond and note redemption	-	-	340,000	340,000
Bond and note interest	-	-	1,114,689	1,114,689
Capital outlay	-	9,824,078	9,265	9,833,343
Other	-	-	-	-
Total expenditures	<u>9,185,076</u>	<u>9,824,078</u>	<u>1,911,970</u>	<u>20,921,124</u>
Excess (deficiency) of revenues over expenditures	<u>226,773</u>	<u>(9,418,238)</u>	<u>32,449</u>	<u>(9,159,017)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds (payments) from/on loa	(86,583)	-	-	(86,583)
Operating transfers in (out)	-	-	5,020	5,020
Net changes in fund balance	<u>140,190</u>	<u>(9,418,238)</u>	<u>5,020</u>	<u>(9,250,620)</u>
Fund balances - July 1, 2003	<u>1,522,504</u>	<u>153,120</u>	<u>1,675,624</u>	
	<u>\$1,662,694</u>	<u>(\$9,418,238)</u>	<u>\$158,140</u>	<u>(\$7,574,996)</u>

See accompanying notes

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
CHANGES IN FUND BALANCE TO THE DISTRICT-WIDE STATEMENT OF ACTIVITY AND CHANGES
NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

Total net change in fund balances - governmental funds (\$9,250,620)

Amounts reported for governmental activities in the Statement of Activities are different because:

Government funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives.

Capital outlay	\$9,833,342	
Depreciation expense	<u>(1,120,104)</u>	8,713,238

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the Statement of Net Assets	340,000
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Repayment of loans used to finance buses is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the Statement of Net Assets	92,734
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as interest accrues, regardless of when it is due.	2,970
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Governmental funds recognize property tax revenue received within 60 days of the balance sheet date. However, they are recognized in full when levied On the Statement of Net Assets.	46,759
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Governmental recognize insurance expenditures as made. However, they are not fully recognized in the Statement of Activities since a provision is made for prepaid insurance on the Statement of Net Assets	-
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Governmental funds recognize inventory as expended when purchased. However they are not fully recognized in the Statement of Activities until consumed.	<u>4,505</u>
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Change in net assets of governmental activities	<u><u>(\$50,413)</u></u>
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GALESBURG-AUGUSTA COMMUNITY SCHOOLS

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**COMBINING STATEMENTS OF CHANGES IN ASSETS AND
LIABILITIES - ALL AGENCY FUNDS**

YEAR ENDED JUNE 30,

Balance			Balance
2003	Additions	Deductions	2004

ASSETS:

Cash and cash equivalents	\$148,890	\$269,257	\$253,540	\$164,607
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LIABILITIES:

Due to student groups	\$148,890	\$269,257	\$253,540	\$164,607
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Notes not here

e are found in Word.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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Bonds payable	\$20,902,052	-	\$340,000	\$20,562,052
Notes payable	599,641	236,492	92,528	743,605
	<u>\$21,501,693</u>	<u>\$236,492</u>	<u>\$432,528</u>	<u>\$21,305,657</u>

GALESBURG-AUGUSTA COMMUNITY SCHOOLS

**COMBINED STATEMENTS OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET VS. ACTUAL -
GENERAL, SCHOOL SERVICE, AND DEBT SERVICE FUND TYPES
YEAR ENDED JUNE 30, 2004**

GENERAL FUND

	Budget Original	Final	Actual	Variance Favorable (Unfavorable)
REVENUE:				
Local sources	\$1,641,096	\$2,374,709	\$2,366,469	(\$8,240)
State sources	6,989,944	6,963,084	6,897,244	(65,840)
Federal sources	229,636	230,032	148,135	(81,897)
Total revenue	8,860,676	9,567,825	9,411,848	(155,977)
OTHER FINANCING SOURCES:				
Operating transfers and financing	-	1,045,761	997,962	(47,799)
Total revenue and other sources	8,860,676	10,613,586	10,409,810	(203,776)
EXPENDITURES				
Instruction	5,723,187	6,046,351	5,941,735	104,616
Support services	3,356,875	3,573,993	3,243,340	330,653
Food service			-	-
Athletics			-	-
Debt service			-	-
Total expenditures	9,080,062	9,620,344	9,185,076	435,268
Other financing sources (uses)	(1,251,460)	(1,013,760)	(1,084,545)	70,785
Excess of revenue and other sources over expenditures and other uses		(20,518)	140,190	160,708
FUND BALANCES-				
July 1, 2003	1,522,504	1,522,504	1,522,504	-
		-	-	-
FUND BALANCES-				
June 30, 2004		\$1,501,986	\$1,662,694	\$160,708

SPECIAL REVENUE FUNDSDEBT SERVICE FUNDS

Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$240,059	\$245,578	\$5,519	\$1,403,599	\$1,494,272	\$90,673
5,500	12,638	7,138	-	-	-
150,446	191,930	41,484	-	-	-
396,005	450,147	54,142	1,403,599	1,494,272	90,673
5,000	5,020	20	350,000	-	-
401,005	455,167	54,162	1,753,599	1,494,272	90,673
-	-	-	-	-	-
-	-	-	-	-	-
356,545	409,825	(53,280)	-	-	-
52,705	47,456	5,249	-	-	-
-	-	-	1,438,113	1,454,689	(16,576)
409,250	457,281	(48,031)	1,438,113	1,454,689	(16,576)
-	-	-	-	236,492	-
(8,245)	(2,114)	6,131	315,486	276,075	(39,411)
-	-	-	255,364	255,364	-
-	-	-	-	-	-
(\$8,245)	(\$2,114)	\$6,131	\$570,850	\$531,439	(\$39,411)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of Galesburg-Augusta Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The more significant of the District's accounting policies are described below:

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the District's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements). The District has implemented the provisions of the Statement in the current year.

Reporting Entity

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting standards generally accepted in the United States of America, currently GASB Statement #14, *The Financial Reporting Entity*.

Based upon the application of these criteria, the financial statements of the School District contain all the funds controlled by the District's Board of Education as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the District nor is the District a component unit of another entity.

Basic Financial Statements – Government-Wide Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

In the government-wide Statement of Net Assets, the columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts: invested in capital assets, net or related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating

GALESBURG-AUGUSTA COMMUNITY SCHOOLS

grants include operating-specific and discretionary (either operating or capital) grants. The net costs (by function) are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.). In creating the government-wide financial statements the District has eliminated interfund transactions. This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Basic Financial Statements – Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures. The various funds are reported by generic classification within the financial statements. The following fund types are used by the District:

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the District:

- a. General Fund - General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. Expenditures are classified in accordance with the Accounting Manual issued by the Michigan Department of Education (Bulletin 1022).
- b. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.
- c. Debt service funds are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.
- d. Capital projects funds are used to account for receipt and disbursement of monies used for the acquisition of capital assets, including equipment. Principal resources of revenues are from bond proceeds, tax levies, interest and transfers from other funds. Unexpended revenues no longer needed for projects for which the bonds were originally approved generally must be transferred to the debt service fund.

Notes to financial statements
June 30, 2004

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Fiduciary Funds

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support District programs. The fiduciary fund net assets and results of operations are not included in the government-wide statements. Trust and Agency Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, organizations, or other funds. Agency Funds are custodial in nature and do not involve measurement of results of operations.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

Governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due. Those revenues susceptible to accrual are property taxes, state aid, interest, grants, and charges for services. Other revenue is recorded when received.

State Foundation Revenue

The State Of Michigan uses a foundation grant approach which provides for a specific annual amount of revenue per student based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2004 the foundation allowance was based on the pupil membership counts taken in February and September of 2003.

The State portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October, 2003 to August, 2004. Thus, the unpaid portion at June 30th is reported as due from State of Michigan. The local revenue is recognized as property taxes.

State Categorical Revenue The District also receives revenue from the State to administer certain categorical education programs. State guidelines require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

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Federal Revenue

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of six months or less from date of acquisition.

Deposits and Investments

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a shorttermduration, the rate of return is fixed, and the districts intend to hold the investment until maturity.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more that 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Short-term Interfund Receivables/Payables

During the course of operations numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the governmental funds balance sheet.

Accounts Receivable

Management of the District considers all accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been provided. If amounts become uncollectible, they will be charged to operations in the period of uncollectibility.

Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of July 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 1, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied.

For the year ended June 30, 2004, the District levied the following amounts per \$1,000 of assessed valuation:

Fund

Read accompanying notes and accountant's report

GALESBURG-AUGUSTA COMMUNITY SCHOOLS

General Fund - Non-Homestead properties 18.0 mills

Debt Service - All properties 7.0 mills

The delinquent real property taxes of the District are purchased by Kalamazoo County. The County sells tax notes, the proceeds of which are used to pay the District for these property taxes.

Property taxes receivable represent unremitted real property taxes from various governmental units and uncollected personal property taxes. Amounts deemed to be collectible within 60 days have been recorded as revenue for the current year in the fund statements. Property taxes not deemed collectible within this period are recorded as deferred revenue in the governmental funds statements and revenue in the district-wide statements. The receivable in the governmental-wide statement of net assets is shown net of an allowance for uncollectible amounts.

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories are not included in governmental funds, the amount at June 30, 2004 of any supplies or parts is insignificant. Inventories in the food service fund include food products used for hot lunch. The inventories are recorded as expenditures when consumed rather than when purchased.

Capital Assets

Buildings, land improvements, machinery and equipment (other than technology assets) and vehicles and buses purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Technology capital assets (personal computers, monitor and printers) with an original cost of \$500 or more are reported as historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Buildings use a 20% salvage value in their calculation, while all other capital assets have no salvage value. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Land Improvements 15 years

Buildings 50 years

Machinery and equipment 4-15 years

Vehicles and Buses 8 years

Deferred Revenues

The unexpended balance of various federal and/or state categorical grants is carried forward as deferred revenue until the period in which eligible expenditures are incurred. Other monies collected in advance are also deferred.

Long Term Obligations

In the district-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the statement of net assets. A premium or discount will be reported and amortized on future bond issues. GASB-34 did not require retroactive restatement of bond premiums of discounts.

Other Accrued Benefits

The District does not accrue accumulated unpaid vacation and sick leave since any amounts would not be material. The District accrues for unpaid early retirement incentives.

Fund Equity

The unreserved fund balances for governmental funds represent the amount available for

GALESBURG-AUGUSTA COMMUNITY SCHOOLS

budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spendable resources".

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses in the governmental funds statements. Transactions that constitute reimbursements to a fund or expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Budgets and Budgetary Policies

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end. The District maintains a formalized encumbrance accounting system. The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to June 1, the Superintendent submits to the Board of Education a proposed operating budget by function for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them and is prepared on the basis of accounting used by the particular fund.
- b. A public hearing is held in June to obtain taxpayer comment.
- c. Prior to July 1, the budget is adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 OF 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates.
- d. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances on the combined statement of revenues, expenditures and changes in fund balances - budget and actual (GAAP basis) - general, special revenue and debt service funds.
- e. Any revisions that alter the total expenditures of any function must be approved by the Board of Education. During the year the District made minor budget amendments which were not material to the original appropriation.
- f. All unencumbered appropriations lapse at year-end while encumbered appropriations are carried forward to the next fiscal year.
- g. A comparison of actual results of operations to the budgeted amounts for the General Fund is presented as Required Supplemental Information.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America, requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

2. CASH AND CASH EQUIVALENTS

At June 30, 2003, the District's deposits were reported in the financial statements in the following categories:

Read accompanying notes and accountant's report

GALESBURG-AUGUSTA COMMUNITY SCHOOLS

Cash and Cash Equivalents

Governmental	\$3,470,020
Activities	\$164,607
Fiduciary	\$40,601

Total Primary Government

At June 30, 2004, the book value of the District's demand deposits, consisting of deposits and other cash equivalents, was \$3,675,228 of which \$200,000 was covered by Federal depository insurance. The District's deposits shown below gives an indication of the level of risk, assumed by the District at year-end. The District places its deposits with high quality financial institutions. Although such deposits Deposits are categorized into these three categories of credit risk.

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
3. Uncollateralized

Category Carrying Market

1	2	3 Value Value
\$3,470,020	\$0	\$0

3. Capital Assets

Governmental capital asset activity for the year ended June 30, 2003, was as follows:

Beginning Balance	Increases	Decreases	Ending Balance
\$24,057,860	\$9,833,342	\$0	\$33,891,202

3. Capital Assets (continued)

Depreciation expense was charged to activities as follows:

Governmental activities:

Instruction	\$169,085
Support services	336,481
Food services	15,177
Unallocated	<u>599,359</u>
Total governmental activities depreciation expense	\$1,120,102

4. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

AT Risk	70,738
Early Childhood	30,815
Other Grants	31,949
	1
Total deferred revenue	133,502

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5. State Aid Anticipation Note Payable

At June 30, 2004 the District has outstanding a \$139,396 note (state aid note) . . The District has pledged its anticipated state aid receipts from the 2003-04 school year as security for the note.

6. Employee Retirement System - Defined Benefit Plan

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost of sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000 and 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributes at the rate of 3.9% of gross wages beginning at enrollment. Market rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amount on a cash disbursement basis. The rates for the year ended June 30, 2003 were 12.17% of payroll through September 30, 2002 and 12.99% effective October 1, 2002. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the years ended June 30, 2004, 2003., and 2002 were approximately \$757,000, \$762,000 and \$730,000 respectively, equal to the required contribution for each year.

The District is not responsible for the payment of retirement benefits which are the responsibility of the State of Michigan.

Other Postemployment Benefits

Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage. These benefits are not included in the pension benefit obligation referred to above.

7. Risk Management

The district is exposed to various risks of loss related to torts; theft of; damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial

GALESBURG-AUGUSTA COMMUNITY SCHOOLS

insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

8. CONSTRUCTION COMMITMENTS

2000 School Building and Site Bonds were authorized in the amount of \$21,670,000 at an election for the building of a new high school and remodeling of the existing high school for kindergarten through third grade. There are no significant contract commitments at June 30, 2004.

Independent Auditor's Report

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Galesburg-Augusta Community Schools, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the the District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Galesburg-Augusta Community Schools, as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have issued my report dated December 31, 2004 on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

The accompanying *Management's Discussion and Analysis and Budgetary comparison information* are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise District's basic financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statement.


December 31, 2004

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

Board of Education
Galesburg-Augusta Community Schools
Galesburg, Michigan

I have audited the basic financial statements of Galesburg-Augusta Community Schools as of and for the year ended June 30, 2004, and have issued my report thereon dated December 31, 2004. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Galesburg-Augusta Community Schools' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Galesburg-Augusta Community Schools' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be a reportable condition. *Reportable conditions* involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Galesburg-Augusta Community Schools' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The District had an absence of appropriate segregation of duties over cash disbursements. The same person(s) made entries in the accounting records, mailed cash disbursements, and reconciled bank accounts.

A *material weakness* is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe the reportable conditions described above is **not** a material weakness.

This report is intended for the information of the finance committee, management, and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink, appearing to read "Z Skypja Baer". The signature is written in a cursive, flowing style.

December 31, 2004